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THE U.S. RESORT LODGING INDUSTRY

3rd Annual Report
1987 Edition

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THE U.S. RESORT LODGING INDUSTRY 1987

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This year's *U.S. Resort Lodging Industry* indicates that the resort market mirrors the continual specialization occurring within the hospitality community. The resort segment, with a 2.7 percent room increase in 1986, again exceeded the hospitality industry average.

This growth seems unlikely to continue. The impact of the 1986 Tax Reform Act, oversupply in several markets and other economic factors have lowered new development expectations through 1990 to approximately 5 percent, a 50 percent decrease from last year's projection. Most of this growth is planned for three major sectors: the islands (Hawaii and the Caribbean), the deserts (Palm Springs and Arizona) and casino gaming (Nevada and Atlantic City).

The distinction of resorts was enhanced with the entrance of foreign, predominantly Japanese, capital. Additionally, like all businesses, the resort industry has participated in the merger and acquisition momentum.

Within the industry, there has been an increasing awareness of resorts as a special hospitality niche, noted by the creation of a resort division by hospitality giants such as Hyatt, Marriott and Westin. This year's study includes interviews with development, finance and operational experts who address specific issues the resort industry faces as it matures. We would like to thank these people for contributing to this year's report.

Contributors to last year's publication predicted sustained growth in the resort segment due to:

- Increased travel as a result of lower travel costs, particularly reduced fuel costs.
- Increased domestic (U.S.) travel resulting from international terrorism.
- Growth of both individual travel, through the mini-vacation, and corporate travel, through increased incentive and meeting travel, due to a healthy economy and the impact of strong equity markets.

As predicted, less expensive travel costs encouraged individual travel, as measured by visitor counts at national parks and major destination attractions and by highway travel statistics. However, this growth has not occurred as rapidly as predicted and, for 1986, reached only 60 percent of the forecasted 8 to 10 percent growth.

Domestic travel also increased, particularly in the earlier part of the year, as a result of fluctuations in the value of the dollar and fear of international terrorism.

By far the most accurate forecast concerned the growth in the mini-vacations market. This market is

rapidly developing into a significant target for resort marketing, with operators focusing on package weekend programs. Trips lasting three or four days will become more prevalent, driven by information technology and deregulation of the airline industry, as well as by individuals' desire to escape from job and productivity pressures.

Cautious growth

As a result of these factors, the character of new resort development is expected to shift away from the 400- to 500-room, group-oriented facilities that predominated in 1985 and 1986. Instead, development activity will involve smaller boutique resorts in locations near major urban centers and larger "megaresorts." Variety in retail and food and beverage are also becoming more important considerations in developing resort products.

While demand at existing resorts oriented toward large meetings has remained steady, expansion of this product will be limited to special year-round destinations. However, group demand will continue to play an important role in generating acceptable year-round use.

The increased emphasis on market niches would seem to indicate that the resort segment will become overbuilt, similar to other sectors of the hospitality industry. However, various factors slowing enthusiasm for development should prevent the fundamental equilibrium of supply and demand from becoming unbalanced.

These factors include the 1986 Tax Reform Act, increasing regulation of the nation's thrifts, the high cost of resorts in relation to other hotels, the management-intensive nature of resort operations, adjusting capital sources and a downturn in general economic activity. Nevertheless, additions to supply will lead to a leveling or decrease in occupancies with significant pressure on room rates.

A resort's ability to enhance peripheral land is expected to become the fundamental force driving new development this year. In an attempt to capitalize on this, operators will tie management contracts to appreciated values of contiguous land. This creates significant and complex contractual considerations, particularly for property disposition strategies, because it is difficult to cover all of the alternative types of property disposition in a contract prepared, in most instances, before the property is even constructed.

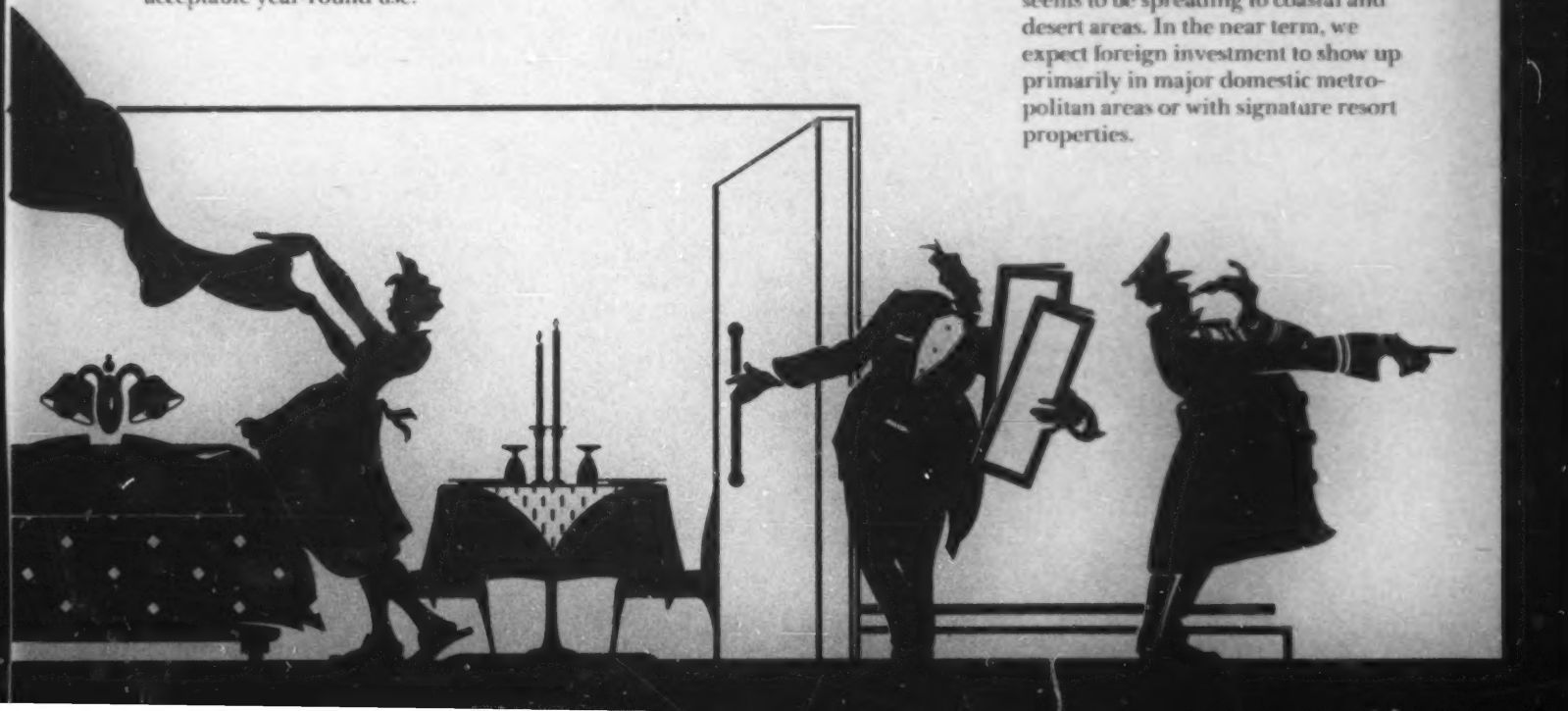
We expect managers to increase their involvement in development as more resorts are built as part of mixed-use real estate projects. Initially managers will attempt to participate in the enhancement of peripheral land value, then their role will evolve into partners and, finally, master developers.

Foreign money

Contrary to these trends, international currency fluctuations have led to additional foreign travel, as well as new capital sources. In fact, foreign investment was the most significant story in the resort sector in 1986.

Intent on capitalizing on favorable currency swings, foreign investors paid premium prices for several existing resort hotels. The influence of foreign capital will increase as foreign investors add to their role as buyers of existing properties to become joint venture partners in the development process.

While most of the momentum was initially noted in Hawaii, this trend seems to be spreading to coastal and desert areas. In the near term, we expect foreign investment to show up primarily in major domestic metropolitan areas or with signature resort properties.



ON BEING AN INDEPENDENT IN THE RESORT LODGING INDUSTRY

by Robert Stephens,
Owner, The Tides Inn
and
Chairman of the Resort Committee
American Hotel
and Motel Association

Although the resort lodging industry is, itself, a special industry, being an independent operator in this industry is even more special. As a hands-on operator of a 112-room, seasonal American Plan destination resort, I wouldn't trade places with anyone who doesn't have the delightful luxury of being independent. Nevertheless, I'm sorry to report that the number of independent operators seems to drop yearly, for both personal and financial reasons.

I use the word "sorry" because, as several of my colleagues on the AH&MA's Resort Committee recently agreed, there is no better way to carry the mantle of entrepreneurship than as an independent resort operator. With intelligent innovations, quality products, attention to detail and the cliche of old-fashioned hard work, the profit picture can even make some of the chains a bit jealous.

In dealing with its major concerns of personnel, marketing and overbuilding, the resort industry has a split personality. It can be both reflective and impulsive, both changeable and inflexible. Although innovative, it remembers its successful programs and continues to use them. Independents share in this dichotomy, but because most are smaller in size and management structure, they can usually face these and other concerns more candidly, directly and quickly.

In the world of personnel, for example, independents can usually demand closer conformity to the type of employee who best suits the properties, whereas other resorts must deal with pressure from government or other third parties. To some, this may seem inflexible until you realize that we are, at the same time, leaders in hiring the handicapped and less educated.

In fact, capable entry-level employees more often seek jobs with independent resorts than with the less personal chain operations. Loyalty works, and most nonseasonal independent resort operators point with pride to the length of service of the majority of their staff. Such faithful employees continue to reinforce the image of the property.

I must admit, however, that independent resort operators do not have the total answer to personnel woes despite the relative stability of their work force. One inherent weakness is that the more ambitious middle- and upper-level employees feel that chains offer greater opportunities for career advancement. Another problem involves the staffing of short season resorts. First of all, independents represent a greater percentage of the resorts with seasonal demand. Secondly, a chain that owns and operates a hotel in a summer resort community could offer to place valuable employees in one of its winter vacation hotels (for example, in Florida) or in a hotel that has year-round demand.

Independent resort operators' single greatest advantage lies in the marketing area. They have the ability to position themselves to cater to a clientele that appreciates the uniqueness they have to offer. Many of our guests do not seem particularly impressed by the billions of dollars the large hotel corporations pour into the resort segment of their operations. Instead, they prefer to stay at independent resorts where they find one-of-a-kind facilities and cuisine, personalized service and uniqueness in their vacations.

Ironically, our "big brothers" have helped us tremendously in remembering and targeting former and potential guests. The demand they created for computer hardware and software geared toward the lodging industry has made this technology cost-effective for smaller operations as well. We have found this tool particularly helpful in the marketing area, where we can do a better job of tracking our guests' special needs and preferences. Now that this information has become more accessible, we often base marketing programs on our findings. We're not letting the large chains move too far ahead of us in this area.

Regarding the third concern I mentioned, overbuilding, who is responsible—the independent operator or the chains? Both are, I'm sure; however, the recent tax law changes will probably curb development in the near future. My worry for the overall health of the resort industry concerns the acquisition activity taking the place of development, since I think it will mean further reductions in the number of independent operators. I hope independents will continue to compete and that more, rather than fewer, will surface to offer a type of hospitality that many travelers appreciate.

EXECUTIVE FORUM

Editor's note: L&H asked top executives from U. S. resort and real estate companies to share their thoughts on the current and future status of the resort industry. Our purpose was to arrange a conversation that would expose our readers to several different points of view on the issues now facing this industry. Part I examines the issues from a real estate development perspective through conversations with Ernest J. Acquaro, Allen Ostroff and Robert A. Gosnell. Part II, from the operations perspective, features Jack Vaughn, R. Scott Morrison and Darryl Hartley-Leonard.

Ernest J. Acquaro is first vice president, administration and research for VMS Realty Hotel Division. In this position, he oversees research, due diligence and underwriting of an expanding portfolio of hotel projects ranging from small Holiday Inns to large island resorts.

R. Scott Morrison, Jr. is president of the Boca Raton Hotel and Club and its subsidiary, Arvida Hospitality Management, Inc. His 30 years of experience extends beyond hotel and resort operations and includes asset management and development of resort destinations and commercial mixed-use properties.

Robert A. Gosnell is the president of Pointe Resorts, a group of luxury mountainside resorts, restaurants, riding and racquet clubs, headquartered in Arizona.

Allen J. Ostroff is vice president in charge of hotel investment for the Prudential Property Company. He has more than 25 years of experience in the lodging industry.

Darryl Hartley-Leonard became president of Hyatt Hotels Corporation in 1986, which currently operates 85 hotels and resorts in the U.S., Canada and the Caribbean. He has worked in the lodging industry since 1964.

Jack Vaughn, CHA, is general manager of the Opryland Hotel and senior vice president of Opryland U.S.A. Inc. When he joined the company in 1975, he was given responsibility for the concept, design, construction and staffing of the Opryland Hotel and Convention Center. He has 28 years of experience in hotel operations.

PART I: A LOOK AT DEVELOPMENT

What makes a resort attractive to financing interests?

Acquaro: The financing market for resorts, as for other hotels, currently faces three critical issues: market segmentation, overbuilding and product obsolescence. For this reason, if a resort is not a unique property and if the market cannot absorb more rooms in the area—either induced or penetrated demand—it does not have appeal for financing purposes. The appeal is also dependent on whether it could be duplicated at a similar cost nearby and whether the property has the ability for adaptive reuse. The less absolute the seasonality of the resort's location in terms of climate, the more appeal it has for financing. The more definitive the seasonality is, the greater the dependence on non-traditional resort guests, such as groups and conventions; therefore chains and feeder markets may be required.

Ostroff: The investor in resort properties must be more sophisticated than investors in other hotel properties, because the market differs greatly. The positive attractions of resorts are that there is less overbuilding and less segmentation than in some other portions of the lodging industry. Also, resorts are becoming professionally operated profit centers of major hotel companies. However, the negative aspects are that these properties basically require a very selective individualized management style, are very trendy, have seasonality and, therefore, more staffing problems and the synergism generated through chain referrals is not as great as for commercial properties. The smart investor weighs these issues for a particular property before making a commitment.

Gosnell: I agree that appeal to financing markets has always been—and is becoming more—dependent on "which" resort. Interest in our company's properties has remained steady regardless of the peaks and valleys. A resort company with a good track record can obtain financing even when the geographic area has experienced overbuilding.

What vehicles are being used to finance resorts?

Acquaro: Traditionally, financing was accomplished with construction loans, for example, through commercial banks and savings and loans, followed by permanent financing, such as through institutional banks and insurance companies. However, sources of such traditional debt are changing radically. Many sources—savings and loans in particular—have too many nonperforming assets (loans) on their books and are involved, involuntarily in some cases, in workouts. This then spreads the risk among new and different players. The biggest trends are (a) securitization of real estate, (b) portfolio packaging of many projects with adequate diversity to spread downside risk, (c) use of high-equity, low-leverage economic syndications, (d) real estate investment trusts (REITS) and (e) foreign investment in the form of either debt or equity.

One key absolute must be recognized. There is no massive pool of resort funds available anywhere and only the best resorts—in terms of market, economic, strategic location and operating efficiency—can and will be built successfully. Once such resorts have been identified and evaluated, then one or more of the techniques I mentioned can be used for that financing. In summary, while the funds may still be available, the terms under which they are accessible are far more onerous.

Ostroff: Innovation has become the key in creating financing structures. A great variety of techniques are available. This is the year of the master limited partnership (MLP). The tax-oriented syndications are out, but there is still a great deal of interest in good economic deals. Also, various types of structures with convertible mortgages and financial techniques, interest only loans and participating loans are being used to allow undercapitalized partners to join in a venture opportunity. In general, however, if there is a good economic opportunity with good partners, we can create a viable financial package.

What are the implications of foreign investment?

Ostroff: I am not sure if anyone completely understands the long-term implications of foreign capital or if we are looking at an aberration that will change very quickly in relation to the valuation of the dollar.

Currently, we see that foreign hotel investments are limited to areas that are major points of entry from overseas, where these investors are most familiar. Where foreign investment has occurred, it has distorted property values because of the different investment criteria used. For U.S. companies, our basic question is whether to compete for highly visible properties or to look for areas that furnish a better return. In many cases, we are partners with foreign capital investors and provide strong partnership arrangements, creating greater loyalties with existing partners and using our great degree of expertise to structure deals.

Acquaro: This has generated enormous interest. Mostly oriented toward the Japanese, foreign investment has been a key item over the past two years. The Japanese, who have invested largely in the Pacific Rim, especially Hawaii, as well as in New York and Chicago, have tended to want "trophy" properties and have been willing to fulfill any seller's dream by paying very premium prices. The Japanese tend to be long-term players, highly analytical and have their bankers at their sides like fiduciary advisers. It is prevalent among Japanese banks to place personnel on their (the bank's) payroll at their clients' places of business in order to protect themselves from financial misadventure. Further, it is important to note that the Japanese are very oriented toward the bottom line and want to position their properties at the top of the market, both in value and in image. The full impact of all foreign investment has yet to be realized; it must be recognized that this source of capital has yet to be fully understood and used to full advantage.

What does the future hold for syndications?

Gosnell: All indications are that syndications, due to the tax considerations, have become a thing of the past. The hospitality industry must now depend on sound economic deals instead of tax shelters. This will greatly reduce development activity, which will benefit existing properties and make them more valuable.

Acquaro: The traditional syndication with tax benefits, high leverage and low equity, no longer exists. The bottom line—that is, profitability—is becoming more important, requiring an absolute positive return. The players in a syndication must have greater liquidity and be able to protect themselves against risk. All-equity structures are currently being discussed and considered. In general, however, even the sponsors of very solid economic syndications will have to provide guarantees and show economic strength in the balance sheet in order to have these guarantees withstand the test of scrutiny.

What are the trends in corporate ownership?

Acquaro: Hotel corporations have become more aggressive in pursuing mergers and acquisitions. At the same time, they have minimized their risk by becoming operating companies, therefore reducing their financial reliance on real estate. The new game is shareholder requirements for earnings per share, which leads to a different set of pressures that, before long, will repeat the cycle and return to the environment that has fueled the current overbuilding.

Ostroff: Hotel companies are selling off the underlying assets, turning to institutional ownership, but maintaining the continuity of management. Institutions are beginning to look at ownership of management companies, e.g., Doubletree's acquisition by Metropolitan. Also, non-U.S. international hotel companies have shown significant growth in major cities.

Gosnell: Another concern arises from the entrance of major corporations to the top-of-the-line resort market. Many hotel companies have introduced properties as a result of ego, not knowledge. Market positioning, planning and building must be driven by net operating income and bottom line, not by ego. The image that accompanies designations such as five-star, five diamond or gold key can only result from the dedication of people, not the injection of unlimited capital. Several of the new luxury resorts in our geographical area cannot realistically become profitable for five to seven years due to their location and exorbitant expenditures.

What impact do resorts have on surrounding peripheral land?

Ostroff: Resorts continue to provide an unbelievably strong stimulus to the economics of surrounding areas. They increase the value of adjacent land and benefit the surrounding communities through the economic multipler effect and an increase in employment.

Acquaro: Many resorts such as the Breakers, the Boca Raton Hotel & Club and the Broadmoor were developed initially for their destination and climate, but eventually brought development into the area. Many major resorts were built to assist in the development of residential property, and the hotel served as the "club house" of the development. When the hotel later became quite profitable, it was spun off by developers as a separate entity. In general, the development of a major destination resort has typically assisted in drafting upwards the land value of almost all surrounding land uses.

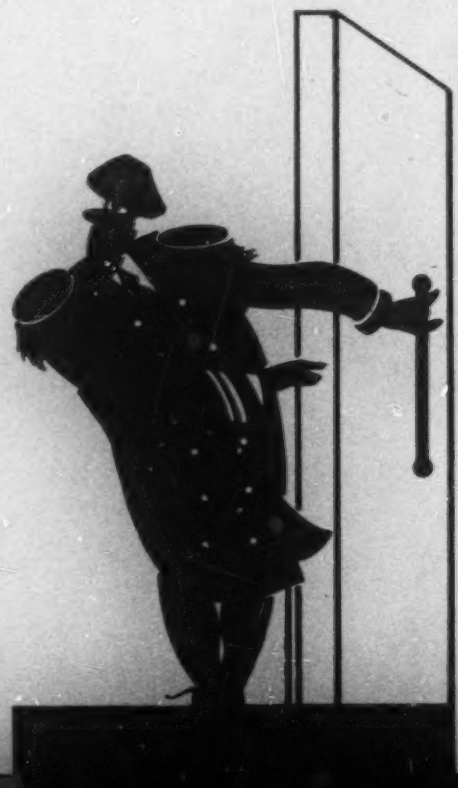
Gosnell: The recent perception is that the resort proper adds value to the surrounding property with regards to development; however, the main contributor to appreciation is the golfing element. Depending on market conditions and the abilities of the developer, it makes much more financial sense to expand golfing facilities, thereby valuing more lots, rather than incorporating a larger number of rooms. The latter merely creates a burden in lieu of an amenity for the project.

What are the implications to resort ownership/management when a resort is included within a mixed-use development?

Gosnell: Again, I think that golf facilities in particular enhance the value of surrounding development, particularly residential.

Acquaro: If a resort is located within a mixed-use development, the implications are that maybe it is not a resort in the traditional sense. However, this may assist it in acquiring financing given that the "resort hotel aspect" will be driving some of the economics. Typically, seaside and mountain resorts are quite attractive for funding, but if there is to be additional mixed-use or residential components, they do not generally occur until the resort itself has already become a destination and has received enough exposure to make the peripheral land valuable and the destination desirable.

Ostroff: In general, we do not believe resort properties belong in mixed-use developments. A resort should have its own mystique; it should be a place to escape. A property cannot be everything to everyone. When a property is mixed-used, it should be primarily commercial, whereas a resort should be mostly fantasy.



PART II: TRENDS IN RESORT OPERATION

What market segments do you consider to be targeted growth areas?

Vaughn: Trade associations have been a fairly constant source of demand over the years; however, changes in their related industries can affect conference attendance in a given year. Corporate groups are affected by similar trends in the economy except that the impact of these trends—whether positive or negative—are felt quicker and have a greater effect, resulting in short-term rises or drops in room bookings. A number of years ago, we targeted associations with trade shows as a market segment with a healthy annual growth rate. We expanded our 30,000 square foot exhibit hall to 101,000 square feet, and this prediction proved so successful that we are now expanding again for a total of 145,000 square feet of dedicated exhibition space. For this strategy to succeed, however, individual properties should constantly be aware of all types of changes in the business world that could potentially affect demand, in order to target new and existing growth areas.

Morrison: Our organization has targeted very different markets. The luxury resort industry has become truly worldwide, creating a greatly expanded marketplace. Target markets in Europe, Latin America and Canada during the past several years has produced a significant increase in guests. Also, as the older, more affluent sector of the U.S. population rapidly expands, it is becoming another principal growth target.

Hartley-Leonard: In areas that offer favorable weather year-round, we see considerable growth potential in the leisure market. People today are placing vacations high on the list of priorities. More and more we see them seeking the kind of quality vacation experience that is offered at a luxury resort. Of course, we anticipate ongoing growth in the meeting and incentive markets for resorts throughout the world. Both markets have experienced significant increases in the past few years. With development of some very attractive resorts in new areas of the world combined with aggressive sales and marketing, we expect that demand will increase even more.

What are the primary operating concerns for the next several years?

Morrison: The scarcity of quality people in the available labor market is the principal operating concern. We continually devote more time to this aspect of our operations and have developed many new training programs. In many instances, we have turned this concern into an opportunity by attracting people with business experience in other industries and training them in good hotel operating procedures.

Hartley-Leonard: As I have said many times before, the human inventory is a service industry's most valuable asset. The way you train and treat your employees must be a conscious decision. It directly relates to the bottom line. Employees, in many ways, are the product itself. Managing people is *especially* important at resort hotels. An attitude of dedication, enthusiasm and perseverance is key; guests are paying for a top-quality experience that only a special type of employee can deliver. Another operating issue is that resorts must accommodate their guests' unconventional schedules. We need to be flexible; if they want breakfast at 3 a.m., we have to be prepared to serve it to them—cheerfully.

Vaughn: Careers in hospitality are a relatively new phenomenon. Although an increased number of schools are offering programs in this field, there remains great competition in hiring. To help fill this void, Opryland Hotel offers an in-house management development and training program to qualified employees. Also, our executive chef maintains an ongoing apprentice program for culinary management.

Nashville is indicative of the common problem of a lack of unskilled, entry-level employees. Nashville enjoys a 3 percent unemployment rate and, in many cases, there are more jobs than potential employees. Compounding this problem, investors and developers continue to build more new hotels,

motels and restaurants. To attack this problem, we developed an ongoing two-day orientation program for all new employees. We built an on-site day care center, the fees for which are subsidized by the hotel based on income of the employee. We have instituted a quality assurance program that incorporates employee participation in decisions within their given area. There is an incentive program for housekeeping employees, and we plan to expand this to other areas of the hotel. We have developed a free transportation service to outlying rural areas and to inner-city areas where employees live. In addition, we offer a competitive employee benefits package.

What trends do you see in the area of specialization of services?

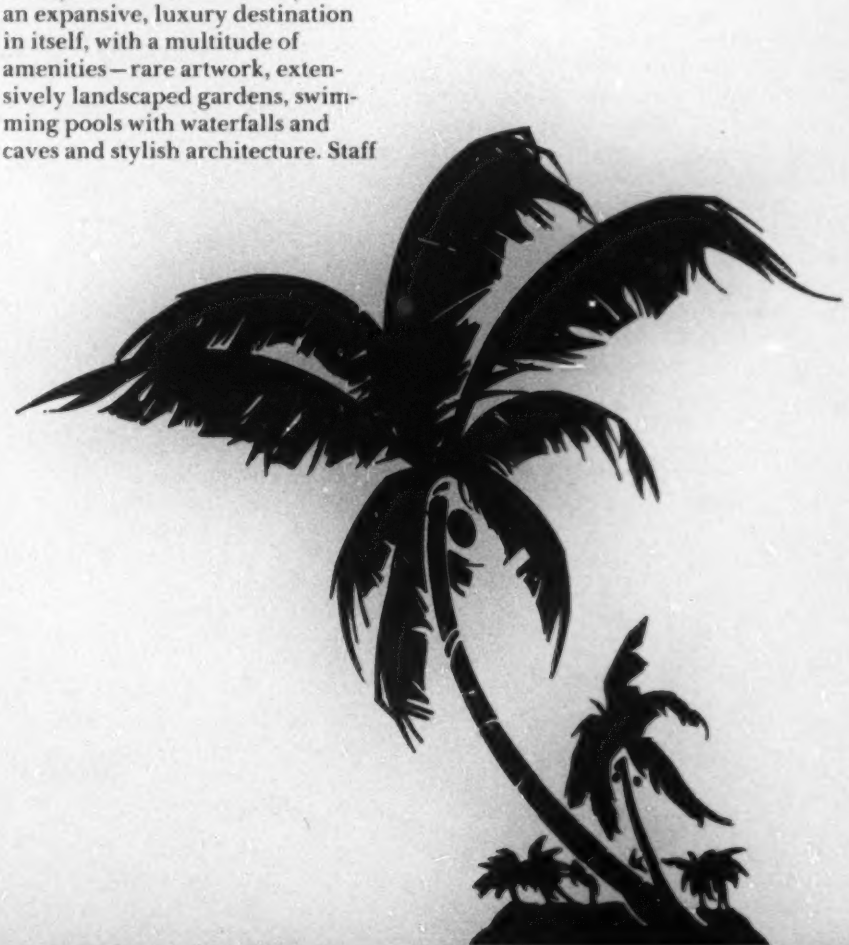
Morrison: Guests are becoming more sophisticated in the types of services they request and expect. While the overall operation, particularly of a resort, requires specialized management—to oversee aspects such as landscaping, security and health maintenance—the guests' demands tend to increase payroll requirements, which during slow periods, tends to erode profit margins.

Vaughn: Hotels are offering more in-house resources such as audio-visual; transportation; entertainment; catering and special events such as off-property tours; and organized group handling, which includes exclusive airport transfers with greeters and welcome signs at the airport, escorts on buses, airport dispatchers, welcome drinks and exclusive baggage handling. We have developed a special events department for this type of service, and they also offer a wide range of additional activities such as: professional seminars on fashion and beauty, investments, professional image, cooking, jewelry, crafts and antique fairs. Special events also offer off-site activities such as tours to area attractions and theme parties. We have developed and expanded our organized children's programs as well, which includes a day camp, swim parties, hot air balloon seminars, skating and bowling parties, 1950s parties and museum tours.

What does the future hold for independent operators?

Hartley-Leonard: The word resort once described a small seasonally operated "ma and pa" operation geared to individual vacationers. Today's resort is more likely to be an expansive, luxury destination in itself, with a multitude of amenities—rare artwork, extensively landscaped gardens, swimming pools with waterfalls and caves and stylish architecture. Staff ratios can sometimes be as high as two employees for every guest. The cost of operating such a resort will prohibit many from playing the game. Although there will always be a place for the individual resort operator, the most successful resort operators will be the companies that can create an inventory of resort hotels, all with a consistently high standard of quality on which guests can depend.

Vaughn: Major chains will continue to grow, but, I agree—there will always be a place for independent operators. Chains have obvious advantages in depth of administration, human resources and market-



ing; however, an independent can react faster to trends and adapt to market swings instantaneously. Successful independents are very wise at positioning their properties and identifying the proper segments of the marketplace. Also, independents are doing more networking among each other, sharing leads and exchanging referrals. Several outstanding "rep firms" have emerged to provide sales for independents in the major marketplaces. Another plus for the independent operator is continuity of staff and management. The resulting rapport our staff has established with customers has contributed to an extremely high rate of repeat business. But independent hotel operators must stay abreast of the industry and the marketplace, plus do an objective job in policing and evaluating their operation.

Morrison: The areas where an independent operator can be successful are becoming more limited. In the resort sector, it will primarily stabilize in the smaller facilities that are principally owner-operated until the "family" generation becomes uninterested successors. Then the title is likely to pass to another independent. There will always be a "special few" larger resort destinations that are better served by remaining independent with the identity and awareness they have earned over the years. Most of the other hospitality facilities will eventually be a "brand" name.

How should resorts be identifying and targeting market niches?

Morrison: Successful properties develop their own identities and, through these, can focus on market sectors that identify with their properties. To carry out this strategy successfully, it is necessary to understand both the "psychographics" and the demographics of the target market. A perusal of guest histories and intense market research will assist in determining the proper niche.

Vaughn: How a property defines each market segment depends on factors such as the type of facilities, amount and type of meeting facilities, exhibit space, and food and beverage capabilities it offers. We break the market into five primary categories: corporate, incentive travel, insurance, trade associations and tour and travel groups. Trade associations can be divided into state, regional, national and international, with national further broken down by type of industry or as a religious or social organization. Personalizing marketing efforts to each of these niches is mandatory to success.

Hartley-Leonard: We expect resort business to increase in all market areas—leisure, group business, incentive and others. In the case of leisure travel, the increase in dual-income families has altered traditional vacation spending. More money is now being spent for shorter, but more frequent trips. Time is a premium for people today; they seek value for their minute, rather than for the dollar. They want a quality experience, and many of today's resorts can guarantee this. Increased group business potential exists as well. In contrast to the "strictly business" atmosphere of a few years ago, companies are changing their attitudes toward business meetings and employees. They have a more open, creative approach to meetings, plus there is more emphasis on health, fitness and quality of life issues. Today's resorts are filling these changing needs of business.

What role will recreational amenities have in the future of the resort industry?

Vaughn: Our hotel offers the traditional recreational amenities such as swimming, tennis and nearby golf; however, we have found offering a wide range of different and unusual recreational activities to be a real plus in attracting guests. This includes a cruise and dinner show, our musical theme park, participating in a live television broadcast, touring the area and attending the Grand Ole Opry.

Morrison: Recreational amenities have been an important factor for many years. With the increasing competition and diversity in amenities offered, a resort must become more creative in their use and packaging. Although a resort must maximize their use, it's not necessary for each amenity to operate profitably since their objective is to add to the total resort experience.

THE RESORT LODGING INDUSTRY 1987

by Eileen Eskin
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This third edition of Laventhol and Horwath's *U.S. Resort Lodging Industry* includes responses from 151 resort operators who provided both financial and general information on their operations. Included in the 1987 questionnaire was an insert of additional questions not asked in previous years' surveys. This information enabled us to provide lodging operators with more specific resort lodging information such as a financial breakdown of the minor-operated departments.

The questionnaire addressed the issue of resort classifications by requesting participants to distinguish their properties into one of three categories: convention-oriented, area or recreation. By definition, a convention resort primarily serves guests that are participating in a conference, convention or other group meeting; guests at an area resort are generally interested in the local attractions such as theme parks or beaches; recreation resorts generally provide unique recreational features to guests, who choose these resorts based on such offerings. This process proved that much more precise definitions would be required. Early returns exposed that ambiguity between categories was providing statistical aberrations.

To bring more value to these comparisons, the category of convention-oriented was eliminated and these properties were reclassified into either area type or recreation based, as determined by the recreational amenities provided on-site. This resulted in a breakdown of 59.6 percent area and 40.4 percent recreation.

Although, as shown in Exhibit 4, recreation resorts still receive most of their demand from leisure travelers, business and conference demand accounted for more than 30 percent of guests. Many business meeting planners are taking advantage of the offerings found at recreation resorts. The latest trend among business planners is to book conventions at resort locations with full recreational attractions in order to facilitate more productive meetings. The idea is two-fold; first, business executives can be more productive at meetings if they have a recreational outlet for their days' work. An executive who puts in eight hours every day in a meeting will appreciate the luxury of nightly entertainment and relaxation that counterbalances a formatted day. The second reason for the recreational resort bookings is to foster socializing between co-workers at company-sponsored events. If co-workers have the opportunity to get to know each other better in a setting away from the workplace, this may improve their working relationships.

The data in the report also are broken down by size, as defined by amount of rooms on the property. This year's sample breaks down as follows: 43 percent had less than 150 rooms, 25 percent had 150 to 299 rooms, 19 percent had 300 to 600 rooms and 13 percent had more than 600 rooms. In the case of Exhibit 22, where full financial information is provided, the resorts were broken down by occupancy rates rather than size or type of resort.

This year's occupancy analysis was broken down by size, occupancy and type of resort. The occupancy breakdown shows the distribution of responses for varying occupancy levels, as well as presenting the medians for each of these subgroups. The median occupancy rate for all resorts was 67.3 percent. Occupancy was highest for those resorts with 300 to 600 rooms and for those in the area type category. In both of these cases, the median occupancy rates were higher than the medians for all resorts. The average room rate for all resorts was $66.23. The average room rate was highest at resorts with more than 600 rooms.

At the resorts with occupancy rates of less than 50 percent, the median average room rate was $70.01, while at the resorts with a higher than 80 percent occupancy rate, this rate was only $55.17. This may indicate the impact of seasonality on resort operations.

Operating results

Exhibits 8 through 14 provide important information on revenue, expenses and income by breaking down the operating departments. Resorts with more than 600 rooms had the highest net revenue per room (Exhibit 9).

The second operating department shown is food and beverage operations. Food and beverage has developed into an increasingly important department, as the resort industry has expanded substantially and marketed itself to the group and incentive travel markets. Exhibits 11 and 12 reflect the significance of banquet activity on departmental performance. Recent surveys of meeting planners now show that the overall quality of food and beverage rates as one of the most important criteria to location selection. As the resort industry continues to diversify its customer base, we expect food and beverage to become even more critical to guest satisfaction.

For the first time, our questionnaire included a section exclusively devoted to minor-operated departments. It requested revenue and expense information on departments such as tennis pro shop, golf course and guest laundry. The results show that total minor-operated departmental revenue only accounted for 5.3 percent of total revenue (Exhibit 22). Since the median departmental expenses account for 3.7 percent of total revenue, the median department profit is negligible. This would tend to support the idea that minor-operated departments serve as conveniences for guests rather than as profit-making departments to supplement a resort's income. Since these departments seem to generate enough revenue to support themselves, providing as many recreational facilities and services as possible can be a cost-effective way to attract guests and ensure repeat business.

Many of the resorts that participated in this year's study provide their guests with services that seem to be a growing necessity at resort locations. Chart 2 shows that more than 60 percent of this year's respondents have barber/beauty salons, game rooms, health club facilities, audio-visual equipment and auto rentals. A smaller percentage of participants offer such unique services as a multi-lingual staff, retail outlets, travel agents on premises and 24-hour room service. Recently, resorts have become more sensitive to the needs of family travelers and have developed babysitting services and entire children's sections of the resorts.

All resorts spend a large proportion of their advertising budgets on payroll and related expenses. As properties become larger and attract more group demand, the distribution of marketing expenditures reflects a shift toward centralized marketing, franchise expenses and print media. Additionally, information in Exhibit 5 provides input regarding the use of credit cards among resort guests.

This analysis of the figures calculated from our participants' responses should serve to supplement the exhibits and charts in this report, but not as a final determination of the meaning behind the numbers. It is our hope that this analysis will help our participants broaden their thinking when comparing their own numbers to these medians. It is difficult to make definitive statements about resorts, since resort properties can offer such a wide range of service and can take on many different forms. Factors such as size, location, clientele and area attractions play important, but different, roles for each resort property. Our random sampling of the 151 resort properties in this year's report should provide a resort operator with a good basis for comparison and can help operators define their goals and operating structure.

Exhibit 1

Profile of Participating Resort Properties

Affiliation	
Chain Owned	11.8%
Chain Managed	7.6
Chain Franchised	13.9
Independent	66.7
Type of Resort	
Area	59.6%
Recreation	40.4
Recreational Facilities on Site	
Golf Course	25.0%
Hiking Trails	23.0
Hunting and Fishing	23.0
Indoor Pool	22.0
Lake-front	16.0
Ocean/Beach	29.0
Outdoor Pool	60.0
Riding	10.0
Ski Trails	13.0
Tennis Courts	45.0
Recreational Facilities Nearby	
Golf Course	49.0%
Hiking Trails	32.0
Hunting and Fishing	32.0
Indoor Pool	49.0
Lake-front	6.0
Ocean/Beach	17.0
Outdoor Pool	16.0
Riding	5.0
Ski Trails	43.0
Tennis Courts	12.0
Telephone System	
Owned	70.0%
Leased	30.0

"During the late 19th century, Cesar Ritz, manager of the Claridge, the Carlton and the Savoy convinced the elite to entertain in hotels instead of at home."

Exhibit 2
*Highlights**

Room Occupancy	67.3%
Average Daily Rate Per Occupied Room	$66.23
Room Sales Per Available Room	$14,795
Food Sales Per Available Room	$7,859
Minor Operated Department Revenue	5.3%
Food and Beverage Sales Per Available Room	$9,577

*Based on medians.

Exhibit 3
*Market Data**

		Size			
	All Establishments	Less Than 150 Rooms	150-299 Rooms	300-600 Rooms	More than 600 Rooms
Source of Business					
Foreign	8.7%	9.3%	6.3%	9.5%	13.3%
Domestic	91.3	90.7	93.7	90.5	86.7
Total	100.0	100.0	100.0	100.0	100.0
Percentage of Repeat Business	41.0	43.7	40.6	34.9	32.6
Composition of Market					
Leisure	66.7%	79.5%	54.5%	58.0%	52.1%
Business and Government	8.9	9.2	15.3	5.6	2.6
Conference Participants	21.9	10.3	28.9	31.3	39.1
Other	2.5	1.0	1.3	5.1	6.2
Total	100.0	100.0	100.0	100.0	100.0
Percentage of Guests with Advanced Reservations	82.2%	75.3%	86.5%	88.5%	91.8%
Advanced Reservation Mix					
Direct Inquiry	54.2%	64.3%	49.2%	55.2%	36.5%
Own Reservation System	15.3	11.3	21.4	9.5	16.2
Independent Reservation Systems	2.3	3.4	1.7	0.6	2.2
Travel Agent	13.0	9.6	12.7	17.0	18.4
Tour Operators	7.4	4.7	7.7	11.9	11.6
Hotel Representative	7.1	5.7	7.8	5.0	15.1
Transportation Company	0.7	1.0	0.5	0.8	0.0
Total	100.0	100.0	100.0	100.0	100.0

*All amounts are means.

Exhibit 4
*Selected Market Data**

	Type of Resort		
	All Establishments	Area	Recreation
1986			
Leisure	66.7%	69.1%	63.5%
Business/Government	8.9	11.5	4.9
Conference Participants	21.9	17.7	28.1
Other	2.5	1.7	3.5
Total	100.0%	100.0%	100.0%

*All figures are means.

Exhibit 5
*Distribution of Sales**

		Size			
	All Establishments	Less than 150 rooms	150-299 rooms	300-600 rooms	More than 600 rooms
Sales Distribution					
Cash Sales	38.9%	47.9%	32.2%	33.4%	19.9%
Credit Card Sales	44.4	46.9	46.9	42.2	43.3
All Other Credit Sales	16.7	5.2	20.9	24.4	36.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Percentage of Cash Sales From Travel Agents and Tour Operators	18.6%	21.2%	14.4%	17.6%	**
Percentage of Credit Card Sales by Card					
American Express	38.1%	28.2%	43.8%	44.0%	53.4%
Visa	31.0	35.0	29.6	27.4	24.2
MasterCard	24.3	29.0	21.0	24.1	17.5
Diners' Club	3.1	2.8	3.9	3.2	3.5
Carte Blanche	1.0	1.2	0.8	0.5	0.8
Discover	1.1	1.8	0.5	0.8	0.4
Other	1.4	2.0	0.4	0.0	0.2
Total	100.0%	100.0%	100.0%	100.0%	100.0%

*All amounts are means.
**Insufficient response.

Exhibit 6
*Occupancy, Guests Per Room and Average Daily Rate**

	Occupancy	Number of Guests Per Occupied Room	Average Room Rate
All Establishments	[illegible]	[illegible]	[illegible]
Size			
Under 150 Rooms	67.3%	1.86	$57.47
150-299 Rooms	58.0	1.78	68.01
300-600 Rooms	77.3	1.50	65.63
More than 600 Rooms	55.4	2.19	80.85
Occupancy			
Less than 50 Percent	38.9%	2.58	$70.01
50-59 Percent	54.3	1.78	55.89
60-69 Percent	65.9	1.69	79.27
70-79 Percent	73.9	1.66	66.02
More than 80 Percent	86.4	1.51	55.17

*Based on Medians

Exhibit 7
*Sales Per Guest Day**

Rooms	$41.91
Food and Beverage	31.12
Telephone	1.08
Minor Departments	4.20
Rentals and Other Income	1.35
Total	$73.69

*All figures are medians and do not necessarily add to totals shown.

Exhibit 8
Rooms Department
Median Ratio to Room Sales

	All Establishments	Size			
		Less Than 150 Rooms	150-299 Rooms	300-600 Rooms	More Than 600 Rooms
Revenue					
Room Sales	100.0%	100.0%	100.0%	100.7%	100.4%
Allowance	1.0	1.1	0.7	1.4	
Net Revenue	100.0	100.0	100.0	100.0	100.0
Expenses					
Payroll and Related	17.0%	15.9%	17.9%	16.6%	16.1%
Travel Agent Commissions and Reservation Expenses	1.6	1.0	1.4	3.0	2.4
Contract Cleaning, Dry Cleaning, Linen and Laundry	2.9	2.5	2.6	3.1	2.6
Operating Supplies	2.0	2.3	2.1	2.2	1.6
All Other Expenses	1.8	2.7	2.6	1.5	1.8
Total Departmental Expenses	26.7%	26.3%	27.7%	26.6%	27.2%
Net Departmental Income	73.9%	75.4%	72.3%	73.5%	72.8%

Exhibit 9
Rooms Department
Median Amounts Per Room and Per Occupied Room

	All Establishments	Size			
		Under 150 Rooms	150-299 Rooms	300-600 Rooms	More Than 600 Rooms
Amount Per Room					
Revenue					
Room Sales	$14,795	$13,132	$13,289	$17,541	$24,216
Allowance	162	142	49	245	**
Net Revenue	14,194	13,619	12,663	17,036	19,284
Expenses					
Payroll and Related	2,454	2,312	2,267	3,265	4,253
Travel Agents Commissions and Reservation Expenses	258	148	202	465	266
Contract Cleaning, Dry Cleaning, Linen and Laundry	438	280	296	452	603
Operating Supplies	334	314	264	431	345
All Other Expenses	297	348	329	217	366
Total Departmental Expenses	$ 3,784	$ 3,359	$ 3,292	$ 5,309	$ 6,330
Net Departmental Income	$10,247	$10,234	$ 9,625	$11,697	$14,544
Amount Per Occupied Room					
Net Revenue	$63.73	$56.18	$63.53	$74.73	$82.22
Payroll and Related	$12.27	$ 8.83	$11.74	$14.14	$15.93
Net Departmental Income	$46.49	$46.25	$42.03	$50.31	$60.86

**Insufficient Response.

In 1904, Statler built the 2,257-room Inside Inn, a temporary hotel for the World's Fair in St. Louis."

Exhibit 10
Food and Beverage Operations
*Amount Per Available Room**

	All Establishments	Type of Resort	
		Area	Recreation
Sales			
Food	$7,859	$5,760	$10,476
Beverage	2,406	1,687	3,076
Total	$9,577	$7,007	$12,728
Cost of Sales			
Food	$2,458	$2,024	$ 3,821
Beverage	619	451	840
Total	3,063	2,469	4,205
Gross Profit	6,366	4,670	8,124
Public Room Sales	71	64	74
Other Income	178	127	197
Total	$ 282	$ 242	$ 297
Departmental Expenses			
Payroll and Related Expenses	$3,871	$3,060	$ 4,755
China, Glassware, Silver and Linen	129	116	161
Contract Cleaning	31	25	42
Laundry and Dry Cleaning	126	101	144
Operating Supplies	236	186	292
Uniforms	46	27	68
All Other Operating Expenses	507	439	545
Total	$7,841	$6,116	$10,334
Departmental Income	$1,247	$ 906	$ 2,424

*All figures are medians and do not necessarily add to totals shown.

Exhibit 11

*Food and Beverage Statistics – By Selected Criteria**

	All Establishments	Type of Resort	
		Area	Recreation
Food Sales by Facility			
Amount Per Available Room			
Dining Rooms	$5,232	$3,153	$ 7,797
Room Service	461	309	557
Banquet	2,537	1,470	2,683
Bar/Lounge	180	201	177
Total	$7,909	$5,802	$10,476
Ratio to Total Food Sales			
Dining Rooms	77.6%	79.9%	72.6%
Room Service	4.9	5.1	4.7
Banquet	27.0	33.6	24.2
Bar/Lounge	2.5	3.0	1.8

*All figures are medians and do not necessarily add to totals shown.

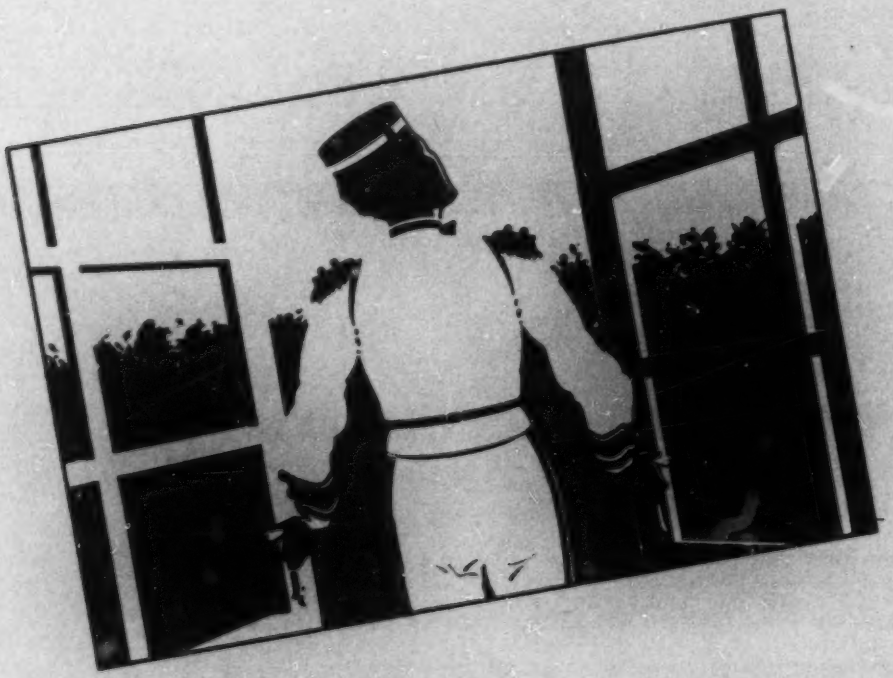


Exhibit 12
Ratios of Total Food and Beverage Sales

	All Establishments	Type of Resort	
		Area	Recreation
Sales			
Food	74.3%	73.3%	75.8%
Beverage	25.7	26.7	24.2
Total	100.0%	100.0%	100.0%
Cost of Sales			
Food	35.7%	36.5%	34.9%
Beverage	24.6	25.0	23.9
Total	32.3	32.4	32.1
Gross Profit	67.7	67.6	67.9
Public Room Sales	0.8	1.1	0.4
Other Income	1.6	1.6	1.5
Total	70.4%	70.1%	70.5%
Departmental Expenses			
Payroll and Related Expenses	41.5%	41.2%	42.0%
China, Glassware, Silver and Linen	1.3	1.3	1.4
Contract Cleaning	0.3	0.3	0.3
Laundry and Dry Cleaning	1.1	1.2	1.1
Operating Supplies	2.5	2.7	2.4
Uniforms	0.4	0.4	0.5
All Other Operating Expenses	5.6	6.3	4.4
Total	53.4%	54.8%	52.3%
Departmental Income	15.7	11.3	18.9

Exhibit 13
Median Ratio to Telephone Department Expenses

	All Establishments*
Cost of Sales	
Cost of Calls	58.2%
Equipment Rental	30.8
Total Cost of Sales	94.5
Payroll and Related Expenses	29.9
All Other Expenses	2.2
Total Departmental Expenses	113.2
Net Department Income (Loss)	(8.9)

*Includes properties not providing information specifying ownership of equipment.

Exhibit 14

Telephone, Rentals and Other Income
Median Amounts Per Available Room

	All Establishments	Size of Property: Less Than 150 Rooms	150-299 Rooms	300-600 Rooms	More Than 600 Rooms
Telephone					
Sales	$ 461	$ 364	$ 374	$513	$ 622
Cost of Sales	295	312	366	223	265
Equipment Rental	149	184	97	142	248
Total	405	385	407	392	438
Payroll and Related Expenses	210	**	160	242	207
All Other Expenses	15	19	23	25	8
Total Department Expenses	535	385	531	652	783
Net Department Income (Loss)	$ (52)	$ (76)	$ (22)	$ (68)	$ 16
Minor Departments					
Sales	$1,428	$2,452	$2,077	$705	$1,375
Cost of Sales	542	340	869	485	534
Payroll and Related Expenses	890	991	1,005	733	1,062
Other Expenses	320	226	542	98	708
Total Department Costs and Expenses	1,011	755	1,023	837	1,825
Net Department Income (Loss)	$ 177	$ (2)	$ 129	$282	$1,320
Rentals and Other Income					
Space Rentals	$ 131	**	$ 174	$143	**
Concessions	107	169	51	105	**
Commissions	72	65	108	58	**
Other	309	324	205	319	480
Total Department Income	$ 433	$ 372	$ 374	$652	$ 783

**Insufficient response.

Exhibit 15
Minor-Operated Departments
Median Amounts Per Available Room

Swimming Pool Cabana Bath	
Sales	$ 527
Payroll and Related Expenses	165
All Other Expenses	102
Net Department Income (Loss)	$ (100)
Tennis Racquet Club	
Sales	$ 274
Payroll and Related Expenses	141
All Other Expenses	66
Net Department Income (Loss)	$ 27
Tennis Pro Shop	
Sales	$ 193
Payroll and Related Expenses	**
All Other Expenses	164
Net Department Income (Loss)	$ 5
Health Club	
Sales	$ 305
Cost of Sales	**
Payroll and Related Expenses	222
All Other Expenses	82
Net Department Income (Loss)	$ 23
Golf Course	
Sales	$2,730
Payroll and Related Expenses	962
Course Maintenance Expenses	529
All Other Expenses	174
Net Department Income (Loss)	$ 429
Golf Pro Shop	
Sales	$1,544
Cost of Sales	771
Payroll and Related Expenses	535
All Other Expenses	132
Net Department Income (Loss)	$ 120

**Insufficient response.

In the late 1960s the hotel and restaurant business began to be viewed as part of travel-, vacation- and recreation-type business."

Exhibit 16
Employees Per 100 Available Rooms
*Full-Time Employees**

		Size			
	All	Less Than 150 Rooms	150-299 Rooms	300-600 Rooms	More Than 600 Rooms
Rooms	20.2	20.2	19.6	20.2	26.6
Food and Beverage	32.7	33.9	32.0	26.5	40.1
Telephone	1.5	2.1	1.5	1.4	1.2
Minor-Operated Departments	5.3	4.1	5.6	5.4	5.4
Administrative and General	4.7	4.7	4.4	7.2	6.7
Marketing	2.3	2.4	2.7	1.3	2.3
Property Operation and Maintenance	4.6	3.5	4.5	5.3	6.8
Other	5.8	3.5	5.8	4.8	**
Total Employees Per Available Room	61.5	50.9	54.2	70.7	106.1

*All figures are medians and do not necessarily add to totals shown.
**Insufficient response.

Exhibit 17
Minor-Operated Departments
Revenue as a Percentage of
Total Revenue

Garage and Parking	**
Guest Laundry	**
Swimming Pool/Cabana/Bath	0.8%
Tennis/Racquet Club	0.9
Tennis Pro Shop	0.5
Health Club	0.7
Golf Course	7.9
Golf Pro Shop	4.6

**Insufficient response.

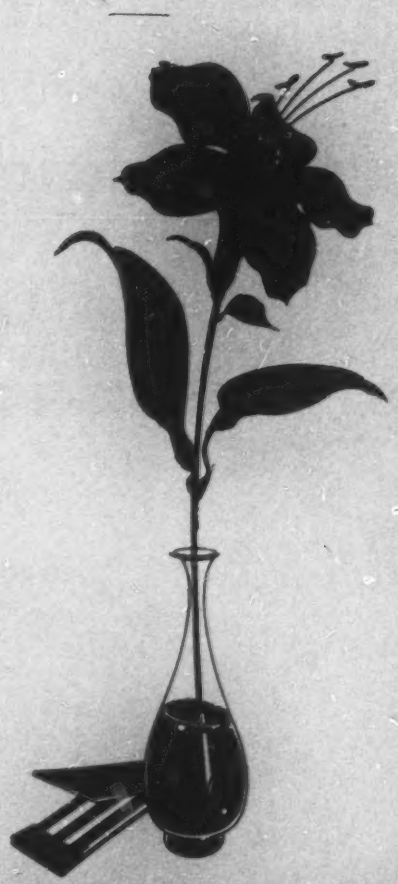


Exhibit 18
*Golf Statistics**

Number of Holes at Course	18
Annual Number of Rounds	
Paid	22,000
Complimentary	1,500
Daily Green Fees	
Peak Season	$30
Off-Season	$22
Golf Pro Shop Square Footage	1,500

*All amounts are medians.

Exhibit 19
Fixed Charges – Median Amounts Per Room

	Rent	Property Taxes	Property Insurance	Interest	Depreciation	Amount Per Room
All Establishments	$1,284	$557	$512	$1,824	$2,294	$ 4,803
Size						
Under 150 Rooms	$ 618	$448	$503	$1,823	$1,802	$ 4,315
150–299 Rooms	902	502	615	1,859	2,224	4,906
300–600 Rooms	2,344	778	533	2,491	2,913	5,105
Over 600 Rooms	3,270	751	241	1,648	3,026	6,465
Occupancy						
Less than 50 percent	$1,250	$378	$390	$1,740	$1,922	$ 3,016
50.0–59.9 percent	**	687	407	2,214	1,212	4,123
60.0–69.9 percent	238	582	526	1,930	2,213	5,271
70.0–79.9 percent	845	546	603	2,200	2,324	4,361
80 percent and higher	3,128	899	539	3,659	5,010	11,252
Type						
Convention	$ 853	$497	$514	$1,825	$2,260	$ 4,825
Area	2,482	660	508	1,740	2,977	4,711

**Insufficient response.

Exhibit 20

The Marketing Dollar

A share of each advertising dollar is spent on the following items:

	All Establishments
Payroll and Related Expenses	29%
Sales Expenses	12
Print Advertising	24
Radio and TV Advertising	4
Outdoor Advertising	3
Other Advertising	9
Merchandising	6
Public Relations	4
Franchise Fees	25
All Other Expenses	13

Exhibit 21

Median Amounts Per Available Room
By Size of Property

	All Establishments	Size			
		Less Than 150 Rooms	150-299 Rooms	300-600 Rooms	More Than 600 Rooms
Annual Occupancy	66.8	67.0	59.7	71.1	72.0
Annual Room Rate	$ 66.14	$ 58.13	$ 63.71	$ 74.73	$ 82.22
Revenues					
Rooms	$14,366	$14,194	$12,768	$17,036	$19,284
Food	7,909	8,456	6,328	9,083	7,984
Beverage	2,423	2,720	1,702	2,709	2,768
Other Food and Beverage	282	89	312	306	267
Telephone	461	364	374	513	622
Minor-Operated	1,428	2,452	2,077	705	1,375
Rentals and Other Income	433	372	374	652	783
Total	$25,460	$21,108	$22,719	$28,834	$36,759
Department Expenses					
Rooms	$ 3,824	$ 3,359	$ 3,436	$ 5,309	$ 6,330
Food and Beverage	7,936	6,944	7,016	10,220	8,641
Telephone	535	385	531	652	783
Minor-Operated	1,011	755	1,023	837	1,825
Total	$13,390	$ 9,506	$12,779	$15,574	$17,766
Department Profit					
Rooms	$10,597	$10,333	$ 9,726	$11,697	$14,544
Food and Beverage	1,251	1,410	983	1,481	1,896
Telephone	(47)	(103)	(17)	(62)	16
Minor-Operated	118	71	18	304	524
Rentals and Other Income	433	372	374	652	783
Total	$13,945	$13,580	$11,271	$14,997	$22,179
Undistributed Operating Expenses					
Administrative and General					
Payroll and Related	$ 1,582	$ 1,424	$ 1,386	$ 1,916	$ 2,173
Other	1,532	1,477	1,375	1,890	2,753
Total	$ 2,906	$ 2,745	$ 2,268	$ 3,794	$ 4,855
Marketing					
Payroll and Related	$ 739	$ 509	$ 745	$ 834	$ 733
Other	1,353	1,032	1,480	1,604	1,573
Total	$ 1,791	$ 1,199	$ 1,890	$ 2,294	$ 2,403
Energy Costs	$ 1,281	$ 1,217	$ 1,121	$ 1,544	$ 1,584
Property Operations and Maintenance	$ 1,826	$ 1,741	$ 1,379	$ 2,452	$ 2,596
Total Undistributed Operating Expenses	$ 7,573	$ 6,983	$ 5,969	$10,763	$11,280
Income Before Management Fees	5,769	6,756	4,099	5,314	11,547
Management Fees (Base and Incentive)	658	**	**	610	**
Income Before Fixed Charges	5,474	5,787	3,844	5,276	11,547
Fixed Charges	$ 4,803	$ 4,315	$ 4,906	$ 5,105	$ 6,465
Income Before Income Taxes	$ (36)	$ 284	$ (597)	$ 273	$ (2,570)
Reserve for Capital Replacement	$ 587	--	--	--	--

**Insufficient response.

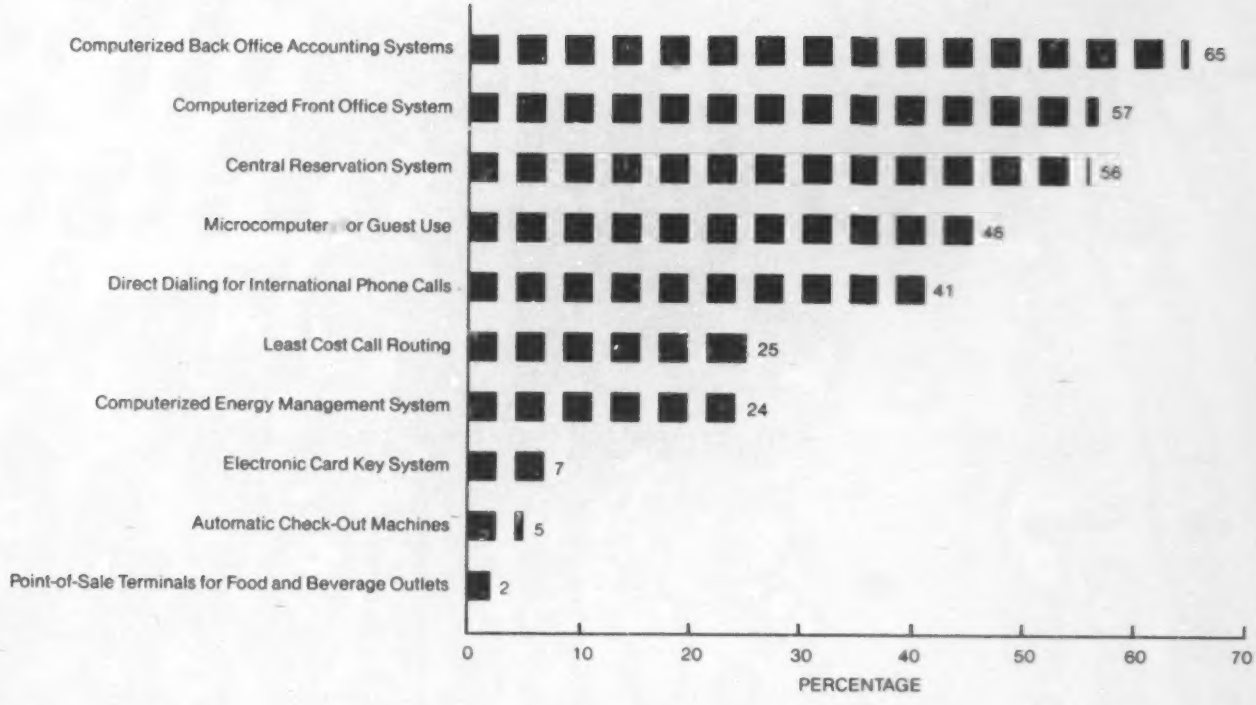
Exhibit 22

Ratio to Total Sales – By Occupancy

	All Establishments	Occupancy				
		Less Than 50%	50 to 59%	60 to 69%	70 to 79%	More Than 80%
Annual Occupancy	66.8	40.2	56.5	65.5	74.2	86.6
Annual Room Rate	$66.14	$65.20	$70.04	$68.64	$67.66	$59.57
Revenues						
Rooms	56.2	46.9	53.1	62.8	67.3	54.4
Food	25.8	26.1	21.2	24.3	18.5	29.7
Beverage	8.2	7.4	8.8	8.7	7.7	9.3
Other Food and Beverage	0.9	1.2	**	0.8	0.3	0.7
Telephone	1.5	1.7	2.0	1.8	1.5	1.2
Minor-Operated	5.3	14.0	**	5.5	1.9	0.9
Rentals and Other Income	1.9	2.2	1.3	1.6	2.0	1.7
Total	100.0	100.0	100.0	100.0	100.0	100.0
Department Expenses						
Rooms	15.0	15.5	15.5	14.4	15.0	14.4
Food and Beverage	27.9	31.2	26.7	25.5	23.5	31.2
Telephone	2.1	2.2	2.7	1.9	2.1	1.4
Minor-Operated	3.7	12.0	**	4.6	1.8	1.9
Total	47.4	54.5	45.4	46.3	40.4	45.6
Department Profit						
Rooms	43.3	30.8	40.7	48.9	47.9	44.4
Food and Beverage	5.2	5.2	5.1	5.8	5.4	4.6
Telephone	(0.2)	(0.2)	(0.4)	0.1	(0.2)	(0.1)
Minor-Operated	0.5	3.1	**	0.2	0.6	0.3
Rentals and Other Income	1.9	2.2	1.3	1.6	2.0	1.7
Total	53.7	46.3	54.6	55.0	59.5	55.9
Undistributed Operating Expenses						
Administrative and General						
Payroll and Related	5.1	6.0	6.8	4.6	4.8	4.6
Other	5.9	6.6	6.7	5.9	5.6	5.0
Total	10.3	11.5	15.1	8.9	9.5	10.2
Marketing						
Payroll and Related	1.9	3.1	**	1.9	1.7	0.9
Other	4.8	5.8	4.1	4.8	4.4	3.0
Total	6.5	8.6	6.1	6.4	6.4	4.1
Energy Costs	4.5	5.5	5.1	4.6	4.5	3.6
Property Operations and Maintenance	6.6	7.0	7.1	6.4	5.9	6.6
Total Undistributed Operating Expenses	28.7	33.0	34.2	27.1	28.1	26.4
Income Before Management Fees	25.0	13.0	23.1	31.3	28.0	32.8
Management Fees (Base and Incentive)	3.1	3.1	**	**	3.4	**
Income Before Fixed Charges	22.5	9.6	17.4	29.4	24.5	27.4
Fixed Charges	22.4	29.0	25.7	22.2	20.2	26.2
Income Before Income Taxes	0.1	(13.0)	0.1	3.4	5.4	2.4
Reserve for Capital Replacement	2.4	**	**	**	**	**

**Insufficient data

Chart 1
Information on Technology Use



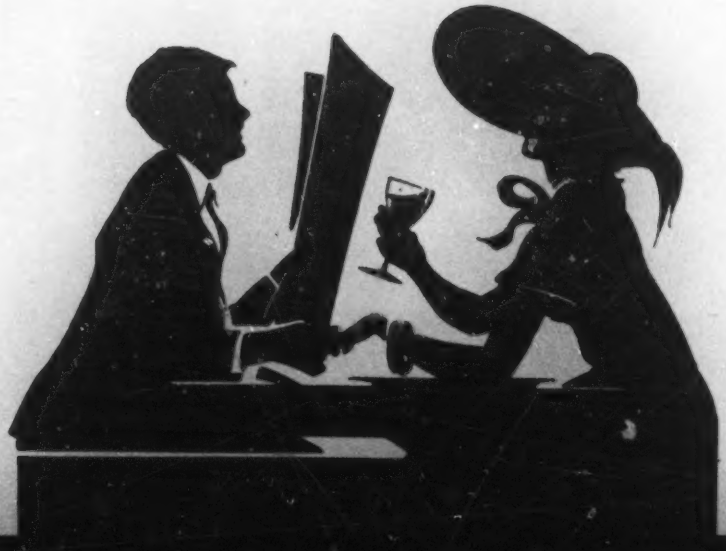


Chart 2
In-Room Entertainment Systems

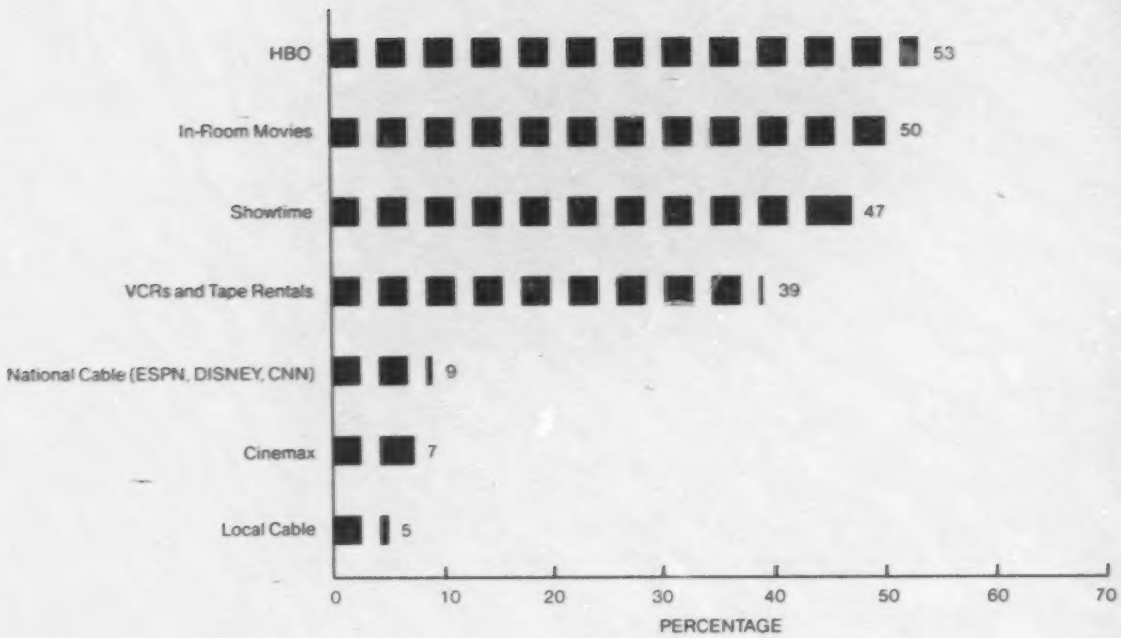
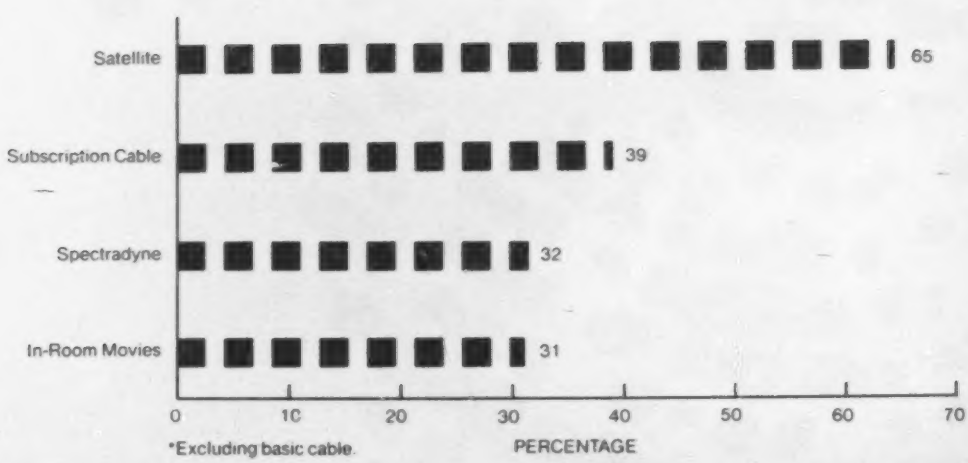


Chart 3
*In-Room Movie Entertainment Systems**



*Excluding basic cable.

Chart 4
Guest Services

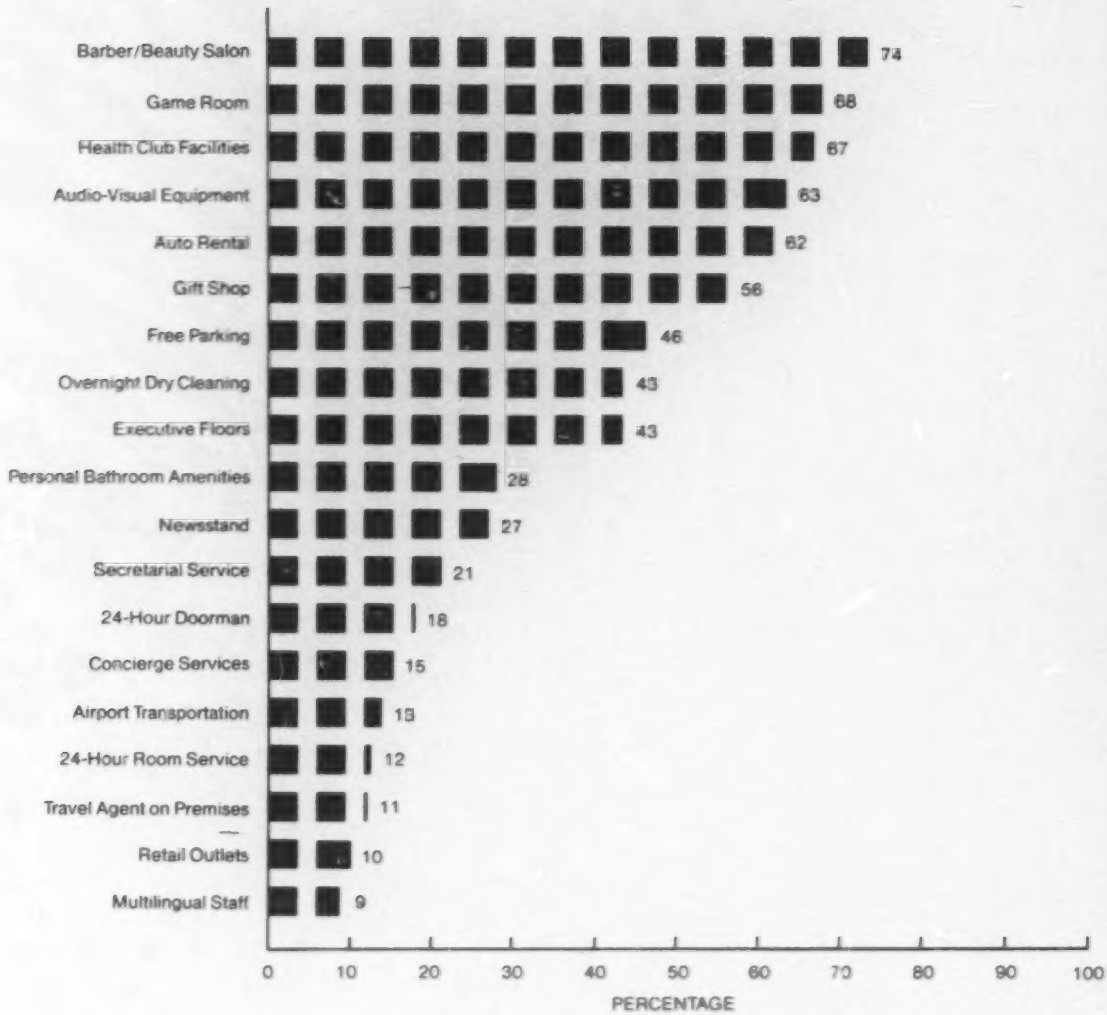
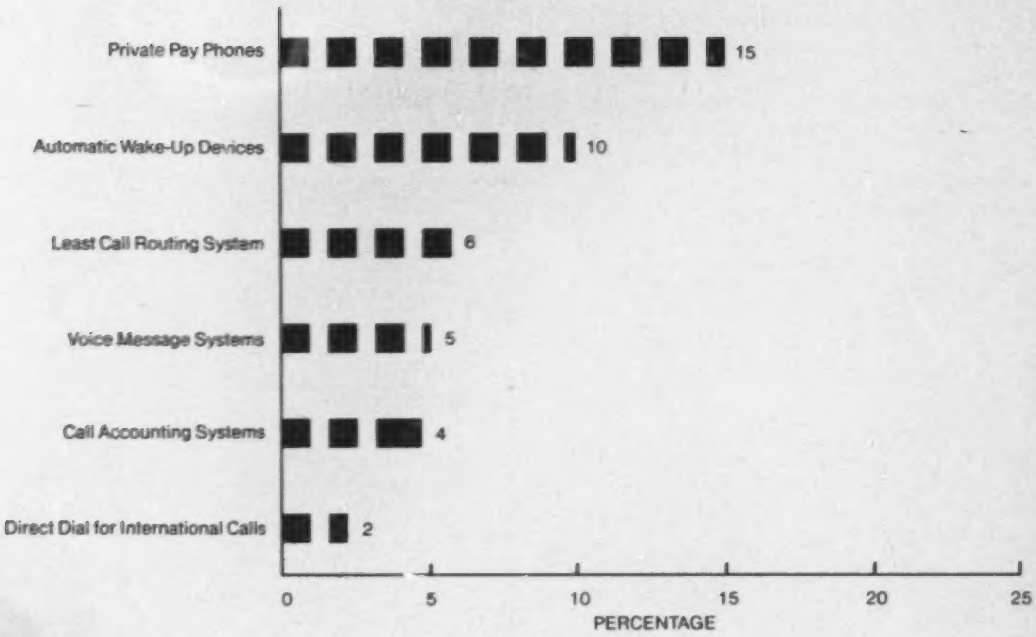


Chart 5
Telecommunications



APPENDIX I: UNDERSTANDING MEDIANS

Throughout the year the Research Division at Laventhol & Horwath receives many phone calls requesting explanations on various information contained in this study. "What is a median?" and "Why don't these amounts add to the total?" are probably the most frequently asked questions. Hopefully, this article will shed some light on these confusing issues.

A median is defined as the middle value of all amounts calculated for a specific line item. For example, if we received nine responses for number of full time employees 8,4,2,6,9,7,5,10,3, these numbers would be arranged sequentially 1,2,3,4,5,6,7,8,9 and the middle value '5' would be the median since 50 percent of the responses received are below the value and 50 percent are above.

In some exhibits the responses are also broken into quartiles, or four equal parts, with the median still being the middle value. The lower quartile is the value that separates the lowest 25 percent of the responses from the rest of the sample when arranged sequentially, while the upper quartile defines the boundaries of the upper 25 percent of the responses from the lower 75 percent. Stated another way, 50 percent of all responses fall between the lower and upper quartiles. For example, if we receive 99 responses for a specific item and the responses (conveniently) were numbered 1 through 99, the median, or middle value, would be 50, the lower quartile would be 25 (25 percent of the responses would be below 25), and the upper quartile would be 75 (25 percent of the responses would be above 75). Fifty percent (or half) of the responses would fall between the lower and upper quartiles.

Now, an attempt will be made to answer the question "Why don't the amounts add to the totals?"

The most important thing to remember is that each line is analyzed separately! In the accompaying table when all amounts are arranged sequentially, the median total sales figure for hotel operations is equal to 100 percent. This figure is based on all the properties that comprise the population. The median ratio of food sales to food and beverage sales was 72.3 percent and the ratio of beverage sales to food and beverage sales was 28.1 percent. These two items were analyzed on samples of 425 and 365* hotels respectively. Different sample sizes indicate that it is very likely that the respective medians come from different hotels. This also holds true for lower and upper quartile figures.

"Greek inns opened near the temples to serve travelers going to see the sacrifices—always followed by a feast and drinking."

One more fact to remember when comparing a hotel with those reported in this study is that it is not constructive to compare a whole column to your hotel's results (the median column, for example).

If your hotel has roughly the same total sales as the median reported it may not be correct to follow through using median amounts for costs and expenses. Since each line is analyzed separately, one property may be close to the median in sales, but may have much higher or lower costs and expenses. There are certain factors such as type of hotel, menu-theme and location that may predetermine the costs and expenses and will automatically make a figure higher or lower than the median.

The proper way to compare your hotel's results with those reported in this study is to first complete the worksheet provided in the back of this study. Then compare industry figures to your figures, line by line. Large variances may identify an area in an operation that requires closer analysis.

**The numbers used for sample sizes are representative and are not actual sample sizes.*

Example 1

Restaurant Operations Ratios to Total Food and Beverage Sales

	All Establishments
Sales	
Food	72.3%
Beverage	28.1%
Total	100.0%

PROPERTY ANALYSIS WORKSHEET

Periodic analysis of the financial performance of your lodging establishment may provide early warning signs of potential problems. Examination on a regular basis could reveal undesirable trends and provide the opportunity for corrective action. The worksheet below is designed to provide a quick analysis of key items to reveal problem areas.

Follow these simple instructions for completing the worksheet:

1. Enter your figures in the first column.

2. Select the appropriate medians for comparison from the tables or text.

3. If the variance is greater than plus or minus 10 percent, further analysis should be made to determine the reason for that variance.

Amount Per Available Room	Your Figures	Medians From *Resort Lodging Industry* Report		
Revenue				
Rooms	$			
Food	$			
Beverage	$			
Telephone	$			
Rentals and Other Income	$			
Minor-Operated Departments	$			
Total	$			
Payroll and Related Expenses				
Rooms	$			
Food and Beverage	$			
Telephone	$			
Rentals and Other Income	$			
Departmental Expenses				
Rooms	$			
Food and Beverage	$			
Telephone	$			
Minor-Operated Departments	$			
Total Departmental Expenses	$			
Undistributed Operating Expenses (Excluding Payroll) Administrative and General	$			
Marketing	$			
Energy Costs	$			
Property Operation and Maintenance	$			
Total Undistributed Expenses	$			
Income Before Management Fees and Fixed Charges	$			
Management Fees	$			
Income Before Fixed Charges	$			
Fixed Charges	$			
Rent	$			
Property Taxes	$			
Insurance	$			
Interest	$			
Depreciation	$			
Total	$			
Net Income Before Income Tax	$			

EXPLANATION OF TERMS

Administrative and general expenses

Payroll – Salaries of managing director, manager, executive assistant manager (not on floor duty); their secretaries and other clerks in managers' offices; accounting office; front office bookkeepers, bill clerks, cashiers, night auditors; credit department; receiving clerks; employment and personnel managers.

Average daily rates

Room sales from all sources net of all allowances divided by the total number of rooms occupied during the period. Average daily rate (ADR) is also referred to as room sales per occupied room.

Cash payroll

Entire cash payroll of hotel, including house laundry and print shop.

Energy costs

Cost of electrical current, fuel, steam and water net of energy sales to stores and others.

Income before fixed charges

For purposes of this study, income before fixed charges is defined as the total of rooms department income, food and beverage department income, minor operated departments income, store rentals and other income, less all undistributed expenses.

Income from minor-operated departments

Income from guest laundry, valet, cigar-newsstand, barber shop and other service departments operated by the hotel less merchandise costs, payroll and related expenses, and other expenses directly chargeable to any of these operations.

Marketing

Payroll and related expenses for sales, advertising and publicity managers and their secretaries and clerks. Also, expenses such as printing, stationery, artwork, layouts, literature, house organ, postage, traveling expenses, entertaining, etc.; space in newspapers and magazines; broadcasting; billboards and car cards.

Payroll and related expenses—rooms department

The salaries and wages of departmental personnel and management including overtime, holiday and vacation pay. Also included are employee benefits and payroll taxes such as Federal, state, social security and workmen's compensation.

Payroll and related expenses—administrative and general

Salaries and wages for the resident manager or managing director, secretaries, reception clerks and bookkeepers.

Management fees

Fees charged by a management organization for management service or supervision should be charged to the account.

Property operation and maintenance

Payroll and related expenses for carpenters, upholsterers, carpet men, masons, electricians, machinists, locksmiths, elevator mechanics, painters, paperhangers and similar maintenance employees; the chief and assistant engineers; boilermen; firemen; ice pullers; incinerator men; storekeepers and clerks in engineer's office and stores. Also, expenses such as uniforms; cost of supplies and outside contracts for painting, repairing (of furniture, springs, mattresses and pillows, floor coverings, curtains, draperies and scarves, shades, screens and awnings, electrical and mechanical equipment, elevators), building and other maintenance work, and all similar supplies; expenses associated with providing the hotel with heat, light, power and water.

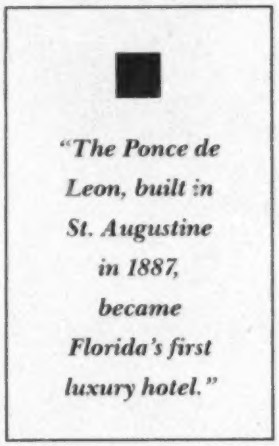
Rentals and other income

Rental income from stores, offices, clubs and other spaces not classified as concessions used for business purposes. Also includes revenue from concessions, income from vending machine operations, commissions (including pay stations) and interest earned.

Restaurant

Cost (Food)—Cost of food sold before and after deduction of the cost of employees' meals.

Cost (Beverage)—Cost of beverages sold, after deduction of the cost of employees' beverages.



"The Ponce de Leon, built in St. Augustine in 1887, became Florida's first luxury hotel."

Payroll—Stewards, chefs, cooks, waitresses and busboys, dishwashers, butchers, vegetable cleaners, bakers, pantry help, etc.; wine stewards and bartenders; stock clerks, storekeepers, cost clerks, checkers and cashiers.

Income, Departmental—Total restaurant sales and other restaurant income less total cost of food and beverages consumed, payroll and related expenses and other direct restaurant expenses.

Sales, Total Restaurant (Food and Beverage)—Gross sales of food and beverages less allowances. Cover charges and other miscellaneous restaurant income are not included.

Rooms

Payroll—Assistant manager, front office clerks, not including bookkeepers, cashiers and bill clerks; housekeeper and assistants; linen room; maids; housemen; bellmen; elevator operators; floor clerks; doormen; house officers; security.

Income, Departmental—Room sales less rooms payroll and related expenses and other direct room expenses.

Sales—Total rent income from guest and nonbanquet public rooms less allowances, not including office rentals, etc.

Sales, total

All sales and income less allowances and cover charges.

Telephone

Income or Loss, Departmental—Telephone sales less cost of telephone service, telephone payroll and related expenses and other direct telephone expense.

Sales—Gross revenue from use of telephone facilities by guests less allowances. Includes service charges and pay station commissions.

Further explanation may be found in *Uniform System of Accounts for Hotels.*

LEISURE TIME INDUSTRY CONTACTS

Laventhol & Horwath has, since its inception, specialized in providing sophisticated advisory services to all facets of the lodging industry. The Leisure Time Advisory Services practice is the largest of its kind in the country in terms of fee volume, professional staff, geographic diversification and service capability. L&H routinely serves as advisor to the nation's most prominent hotels, developers, financiers, syndicators and industrial corporations on methods used in developing, financing, managing and marketing lodging properties.

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B. Worldwide Hotel Industry	65	150	August
C. U.S. Economy/Limited-Service Lodging Industry	65	150	September
D. U.S. Resort Lodging Industry	50	120	September
E. All-Suite Lodging Industry	65	150	September
F. Texas Lodging Industry	50	120	September
G. Florida Lodging Industry	50	120	September
H. California Lodging Industry	50	120	September
I. California Restaurant Operations	50	120	September
J. The Industry Study 1987 (The Retirement Housing Industry)	90	220	November
K. Nursing Home Industry	80	200	November
L. Gaming Industry Financial Results	50	120	August